

“Anti-Semitism and the Great Depression”  
by Milton Friedman  
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Gen. George Brown’s recent ill-considered statement that Jews “own the banks in this country” recalled an incident during the Great Depression when anti-Semitism helped precipitate financial collapse.

Then as now, Jews were of negligible importance in commercial banking. In 1930, New York, with a population nearly one-third Jewish, had only two banks of any size whose major stockholders and officers were Jewish. One was the Bank of United States. Its failure on Dec. 11, 1930, marked a basic change in the character of the contraction that had started in August 1929: from a severe recession, with no sign of any financial crisis, to a catastrophe that reached its climax in the banking holiday of March 1933, when all banks were closed for a week—including the Federal Reserve banks, which had been set up to prevent banking panics but ended by participating in the worst panic the country had ever experienced.

The failure of the Bank of United States contributed to changing the character of the contraction for several reasons. First, it was the largest commercial bank ever to have failed in the U.S. up to that time. Second, though it was an ordinary commercial bank, its name had led many at home and abroad to regard it somehow as an official bank, hence its failure undermined confidence more than the fall of a bank with a less distinctive name. Third, while the Federal Reserve Bank of New York drew up a plan to save the bank, which was a member of the system, the Clearing House banks of New York refused to adopt it. The result not only lowered the system’s prestige but also unsettled the banking community.

The Bank of United States was a sound bank. Its troubles stemmed from rumors that produced a temporary run on it. If the immediate crisis had been overcome, the bank would almost surely have survived. That was certainly the judgment of Joseph A. Broderick, New York superintendent of banks at the time. He urged the Clearing House to save the bank and correctly warned of the dire consequences that would follow if it did not. As it was, though liquidated during the worst years of the Depression, the bank ultimately paid off 83.5 per cent of its liabilities.

Anti-Semitism almost surely played a role in the decision of the Clearing House to reject the New York Reserve Bank’s plan.\* For most members of the Clearing House, the evidence to this effect is indirect. It is much less so for those members dominated by J. P. Morgan & Co. We know how John Pierpont Morgan, Jr., the head of the House of Morgan, felt about Jews, thanks to an entry in the diary of Charles Hamlin—a Federal Reserve Board member from 1914 to 1936 and, fortunately, a lover of gossip. Hamlin records that at a board meeting on Jan. 20, 1917, “Gov. [W. P. G.] Harding [chairman of the Fed] said he had had a two hour talk w. J. P. Morgan at the Met. Club late this p.m., that Morgan ... seemed very bitter against Warburg [Paul M. Warburg, a member of the board] evidently thinking he was dominating the board; that he said he did not trust Jews: that they had killed his father (referring I suppose to Untermeyer) and that sometime he should get even with them!”

The reference is to Samuel Untermyer, a famous Jewish lawyer of the time, who served as counsel to a Congressional committee that investigated “The Money Trust” (the Pujo committee). In that capacity, Untermyer questioned J. P. Morgan Sr. in December 1912, some months before Morgan's death. The son no doubt was referring also to Louis D. Brandeis, who had strongly criticized Morgan and who did much to stimulate and later publicize the Congressional inquiry. The Morgans presumably felt that Untermyer and Brandeis had unfairly subjected J. P. Morgan Sr. to public obloquy.

J. P. Morgan Jr. finally got “even with them”—but at what a cost to the nation.

Of course, it may be that even if the Bank of United States had been saved in December 1930, a similar episode later, perhaps involving a bad bank, would have had the same consequences. The one thing we know is that this opportunity to avoid financial collapse was spurned.

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### Notes

\*By no coincidence, that plan called for merging the Bank of United States with three other banks with Jewish directors, of which the Manufacturers Trust was the most substantial. By no coincidence also, subsequent reorganizations eliminated the dominant Jewish influence from Manufacturers Trust.

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Compiled by Robert Leeson and Charles Palm as part of their “Collected Works of Milton Friedman” project.

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